

Message Text

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FROM UNDER SECRETARY ROBINSON, PLEASE PASS SECRETARY

E.O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

REFS: A) STATE 248235; B) MOSCOW 14954; C) STATE 245190;

D) STATE 244346; E) PARIS 26555

1. I HAVE RECEIVED YOUR FURTHER INSTRUCTIONS REFTEL A AND AM PROCEEDING ACCORDINGLY. WE HAVE PRESENTED TO PATOLICHEV FOR HIS CONSIDERATION IN ADVANCE REVISED WORDING OF PARA 6 OF THE OIL LETTER OF INTENT REFTEL A PARA 5. WE ARE NOW SCHEDULED TO MEET WITH PATOLICHEV AT 1 PM TODAY SATURDAY OCT 18 IN AN EFFORT TO RESOLVE THIS AND ALL OTHER REMAINING ISSUED IN ACCORDANCE WITH YOUR INSTRUCTIONS.

2. WE HAVE SLOWED DOWN TIME-TABLE IN ACCORDANCE REFTEL A PARA 1 ALTHOUGH STILL ENDEAVORING CONCLUDE ALL AGREEMENTS BY TONIGHT SATURDAY OCT 18. OUR SCHEDULE PROPOSED REFTEL B WAS BASED ON INSTRUCTIONS CONTAINED REFTEL C PARA 9, WHICH CALLED FOR ACHIEVEMENT SATISFACTORY AGREEMENT WITHIN 2 OR 3 DAYS. WE NOW IN THIRD DAY AND IF UNABLE REACH AGREEMENT TODAY ANTICIPATE NO FURTHER PROGRESS ON SUNDAY, WITH FINAL RESOLUTION ON MONDAY EARLIEST. APPRECIATE YOUR CONCERN RE INCONVENIENCE TO ME BUT THIS IRRELEVANT. IF UNABLE CONCLUDE NEGOTIATIONS TONIGHT I WILL CABLE TUNIS REGRETTING MY INABILITY HEAD US DELEGATION US - TUNISIA JOINT COMMISSION MEETINGS.

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3. REFTEL A PARA 2 NOW PROVIDES US WITH CLEAR UNDERSTANDING OF PRESIDENT FORD'S OBJECTIVES IN STATEMENT TO ACCOMPANY LIFTING OF MORATORIUM. WE WILL ATTEMPT OBTAIN SOVIET ACCEPTANCE OF FORMULATION SUGGESTED REFTEL C. HOWEVER, AS WE ANTICIPATE CONTINUING SOVIET RESISTANCE TO BEING CAST IN THE ROLE OF PETITIONER, COULD WASHINGTON ACCEPT A FALLBACK FORMULATION FOR THE PRESIDENT'S STATEMENT AS FOLLOWS: "THE SOVIETS HAVE ASSURED US THAT THEIR ADDITIONAL PURCHASES OF US GRAIN FOR THE CURRENT YEAR WILL NOT BE IN A VOLUME WHICH COULD DISRUPT THE US MARKET. THEY FURTHER UNDERSTAND THAT WE WOULD CONSIDER UP TO 7 MILLION TONS AS NON-DISRUPTIVE UNDER CURRENT CONDITIONS ARE ARE PREPARED TO CONSULT WITH REGARD TO ANY POSSIBLE REQUIREMENTS BEYOND THIS LEVEL." PLEASE ADVISE SOONEST IF FORMULATION ALONG THESE LINES ACCEPTABLE.

4. WE HAVE ALREADY PRESENTED THE SOVIETS WITH THE PROPOSED TEXT FOR REVISION OF PARA 6 OF THE OIL LETTER OF INTENT AS INSTRUCTED REFTEL A. WE WILL MAKE EVERY EFFORT TO OBTAIN THEIR APPROVAL ON THIS BASIS. HOWEVER, IN EXPLANATION FOR THE FORMULATION OUTLINED REFTEL B PARA 5 I HAVE THE FOLLOWING COMMENTS:

A. WE INTERPRET "ON THE BASIS OF WORLD PRICES" AS A PRACTICAL MATTER IDENTICAL WITH THE SUGGESTION REFTEL D PARA 3 THAT THE PRICES BE "COMPETITIVE" IN THE "MARKET" WITH "OTHER WORLD SOURCES". THE SUGGESTED PROVISION THAT SUCH PRICES WOULD BE ESTABLISHED "TAKING INTO ACCOUNT" THE "TRANSPORTATION CONDITIONS" BRINGS THIS INTO LINE WITH YOUR DESIRE TO ASSURE COMPETITIVE PRICING IN THE U.S. THIS IS REINFORCED BY THE PROVISION IN CLAUSE 4 OF THE OIL LETTER OF INTENT WHICH ESTABLISHED OUR MUTUAL AGREEMENT TO DELIVER SOVIET OIL TO THE US.

B. THE TACTICAL PLAN FOR OIL AGREEMENT NEGOTIATIONS PROPOSED REFTEL E AND GENERALLY CONFIRMED REFTEL C PARA 9 CALLS FOR ESTABLISHING A BASE SAUDI OIL PRICE FROM WHICH A REDUCTION WOULD BE DETERMINED FOR SOVIET OIL BASED ON THE DIFFERENCE BETWEEN THE HIGHER US-USSR TRANSPORT COST AND THE PG-US TRANSPORT COST. IT WAS MY VIEW THAT THE FORMULA PROPOSED REFTEL B PARA 5 PUT US IN A STRONGER POSITION IF WE WERE TO PROCEED ON THIS BASIS.

C. WITH REGARD TO THE REFERENCE TO PRICES WHICH "WILL BE ESTABLISHED IN CONTRACTS" WE APPRECIATE YOUR CONCERN AS IT RELATES

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TO POSSIBLE PURCHASES BY THE USG. HOWEVER, WE ARE CONCLUDING AN OIL PURCHASE OPTION WHICH IMPLIES SEPARATE CONTRACTS FOR QUANTITIES WHICH THE USG MAY FROM TIME-TO-TIME ELECT TO PURCHASE. SUCH PURCHASE "CONTRACTS" WOULD PROVIDE FOR SPECIFIC PRODUCTS, QUANTITIES, LOADING SCHEDULE, ETC., WITH PRICE AS ESTABLISHED IN THE OPTION AGREEMENT. IN ANY EVENT WE WILL PROCEED IN ACCORDANCE INSTRUCTIONS REFTEL A PARA 4.

5. WE INTEND TO HOLD FIRM ON THE REVISED CLAUSE 6 OF THE OIL LETTER OF INTENT AS INSTRUCTED REFTEL A RECOGNIZING THIS MAY DELAY RESOLUTION THIS ISSUE; HOWEVER, IF NO PROGRESS ACHIEVED BY MONDAY MORNING MOSCOW TIME OCTOBER 20 REQUEST AUTHORIZATION RETURN TO ORIGINAL FORMULATION FOR CLAUSE 6 OF OIL LETTER OF INTENT AGREED WITH SOVIETS AND PREVIOUSLY PROPOSED TO WASHINGTON (MOSCOW 14241). THIS WOULD READ AS FOLLOWS: "PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS WILL BE MUTUALLY AGREED AT A LEVEL WHICH WILL ASSURE THE INTERESTS OF BOTH THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS."

6. WE WILL INSIST UPON AN ORAL AGREEMENT ON LOCUS OF OIL CONTRACT NEGOTIATIONS AND COMMENCEMENT OCTOBER 1975 AS INSTRUCTED REFTEL A PARA 6. WE SHOULD UNDERSTAND HOWEVER THAT THE KEY TRANSPORTATION ELEMENT OF THE OIL AGREEMENT COULD COME UP FOR DISCUSSION SOON AFTER RESUMPTION OF MARITIME AGREEMENT NEGOTIATIONS NOW SCHEDULED COMMENCE WASHINGTON OCTOBER 22. ANY NEGOTIATIONS ON TRANSPORT AND/OR OTHER ELEMENTS OF THE OIL AGREEMENT SHOULD AWAIT ESTABLISHMENT OF AN OVERALL INTEGRATED TACTICAL PLAN TO ASSURE OPTIMAL RESULTS. I WOULD HOPE THAT THIS COULD AWAIT MY RETURN TO WASHINGTON NOW SCHEDULED OCTOBER 24.
STOESSEL

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